

1. Introduction

This report provides a project summary, a description of the project process, and recommendations for individuals undertaking a similar effort.

2. Project Summary

It is most useful to summarize the project in terms of Results, the Process and Recommendations for Improvement, as follows:

Project Results: Cape Cod Cooperative Extension (CCCE) and the individuals participating in the development of a jointly managed shellfish handling facility, at the conclusion of the project on November 30, 2001, had accomplished the following.

1. The individuals had formed a legal, asset owning organization - Cape Cod Sea Farms, LLC (CCSF).
2. The individuals had acquired a clear understanding of the Massachusetts Department of Public Health wholesale dealer licensing and permitting process.
3. The individuals had created a business plan states future concerns realistically.
4. CCSF had accessed MDFA grant funds and used them prudently.
5. A self-selection process occurred - one member left, one new member joined.
6. CCCE possessed a record of the project and had developed a template, or checklist, for future similar groups to use.
7. Determined that economic gains were secondary to limiting personal economic risk.

Project Process Summary:

Pre study:

1. Two years of discussions regarding a collaborative effort that produced increased economic benefits for the four individuals.
2. Receipt of \$20,000 Agro-Environmental Technology Grant.
3. Completion of MDFA aquaculture business class by two members.

Meetings & Tasks: The meetings and tasks could be broken into three phases.

1. Initial meetings focused on dollars, organization and risk.
2. Middle meetings focused on facility/regulatory issues.
3. Final meetings focused facility acquisition.

Critical Success Factors:

1. A common love of the business was and is the final glue.
2. The members' fundamental level of trust was based on familiarity.
3. An MDFA ,Agro-Environmental Technology Grant Funding of \$20,000 for equipment, fixtures or building needs.
4. An MDFA, Aquaculture Grant providing \$3,550 for equipment, etc.
5. CCCE Technical Assistance Grant providing \$10,000 in consulting services for project management, research and business advisory services.

Obstacles:

1. Differing levels of production by each member created differing levels of risk tolerance and capital availability.
2. A QPX outbreak in early Summer '01 directly affected two members and indirectly affected all members by creating additional risk aversion.
3. The September 11th terrorist attacks and economic recession created additional risk awareness.
4. Not all members were able to attend the meetings on a regular basis. This affected how work was assigned and tasks accomplished. The summer work schedule and personal obligations were the primary reasons.
5. Timing: Much of the process occurred during the summer. This reduced time and energy available for thoughtful consideration. It also made finding space to lease or purchase more difficult.

Recommendations for Future Similar Efforts:

The recommendations below represent what worked in this effort and what could be improved on. The business planning effort should begin with Step A1 or A2. They are similar but have sufficiently different approaches that some will find one more preferable than the other.

A1. Begin with the end in mind. In most cases this will boil down to three questions:

1. How much will it cost me to get a wholesale dealer's permit?
2. What is my exit strategy - will I sell out in 18-24 months or build a business to pay for my retirement?
3. Do I intend to pay my share of the organization's costs through existing customers (current sales and price levels) or am I going to seek new customers?

A2. View the process as a three-stage effort, unless the group has predetermined, specific, customer or customers to sell to. The three stage process is:

1. Define facility costs and permit requirements.
2. Define expense and revenue expectations and customer base for the venture for the coming 18 months.
3. Define tasks and target dates that group members agree are necessary to get the facility up and running.

B. Document major elements, such as cost sharing, division of tasks, that need to be agreed on.

C. Consider three forms of organization - limited liability corporation, S or C corporation or cooperative. Have a reason for picking one. (In most cases the tax flexibility and minimal record keeping requirements favor an LLC) Perform your own research and limit amount of legal assistance (and dollars spent) required from lawyers.

D. Outline revenue sources beyond the 18 months and determine whether exit

strategies also need to be defined.

- E. When tasks are not getting done Clarify and document each member's objectives
- F. Take time to make sure that everyone is on the same page on a regular basis.

3. Description of Process

Description of Process & Results: Prior to the beginning of the feasibility study, four aquaculturists engaged in growing and selling shellfish discussed the possibility of forming an organization to increase their profitability and improve operating efficiencies. These discussions occurred over a two-year period. The group applied to the Department of Food and Agriculture for grant funding to support the start-up of such an organization, possibly a cooperative, and, in February, 2001 received approval of their grant application in the amount of \$20,000. A second grant for \$3,550 was subsequently approved.

In March of 2001 this feasibility study was undertaken. Members were surveyed to determine their objectives in early March. The four group members met during March, April, May and June of 2001 to define an organization and plan a business for all four to participate in for the purpose of obtaining a single, or multiple, dealer's wholesale shellfish permit and selling shellfish. At the outset of the project, the group received two grants from the Mass. Department of Food & Agriculture (Agro-Environmental Technology Grant of \$20,000 and Aquaculture Program Grant of \$3,350) totaling \$23,350, to further their efforts.

William Burt, representing the Cape Cod Cooperative Extension met with the group regularly. One of the four gentlemen withdrew from the planning project and from the group. The remaining three shellfish growers formed a limited liability company, rather than a formal cooperative for several reasons. (One of the initial questions addressed was whether to form a cooperative.) While the cooperative spirit is important to the members, the legal organizational entity known as a cooperative is a corporation (carrying with it the attendant record keeping required of a corporation) and, in Massachusetts, requires seven members. Just as importantly, the primary traditional benefits of being a cooperative - buying power, diffusion of risk, and sufficient numbers to delegate tasks to a representative board - did not apply to a four-person organization. Additionally, Richard Burke of the USDA indicated to the members that forming a cooperative was a lengthy process.

Additionally, the following factors entered into the group's choice of organizational structure:

- ◆ The advantage of marketing as a group rather than as individuals is the reduced cost of maintaining a facility necessary to meet the health regulations required of those qualifying to sell as licensed dealers.
- ◆ At this time one of the members chose not to continue with the group's efforts. The primary lessons learned from this departure were that:: a) stated motivations

and shared goals often change when individuals are executing their decisions and reevaluating their objectives when moving from the hypothetical to real life commitments, and b) this is better done sooner rather than later. Also, the ground rules for organizational formation today, are: a) LLC's are popular today for reasons of flexibility and ease of operation, and b) every group needs to evaluate its own needs before committing to a form of organization.

- ◆ Specifically regarding the LLC formation: Cape Cod Sea Farms is a four member (equal ownership), member managed limited liability company that has elected to be taxed as a partnership. The limited liability company was selected because of the liability protection that it provides (greater than a partnership) and the operational flexibility (greater than a corporation). The member-owners of CCSF have equal shares of the CCSF and manage the business through their Management Operating Agreement. The Agreement addresses operating matters ranging from allocation of expenses to buyout procedures, taxation and end-of-year disbursement of funds.

Having selected an organizational structure, the group met with representatives of the Division of Marine Fisheries, Cape Cod Cooperative Extension and the Department of Public Health (DPH) in late May to determine how best to proceed before presenting a dealer's permit application. DPH made it clear that it was comfortable approving wholesale shellfish dealer's applications for permits for individuals and not a group, at this time. The reasons for this preference related to clarity of inspecting for health violations and ownership of refrigerated trucks, or refrigerated units on trucks.

The logic was quite practical as phrased in the question: "If four individuals, or the group, own a single refrigerated truck, how will that truck make the four sets of deliveries in a timely fashion that is satisfactory to all?" If there are two trucks, owned by individuals, there is no question because the volume and capital in question makes a two truck arrangement realistic.

Concerns were raised regarding the cost of making a facility ready to pass inspection. The handling of waste water was a matter of particular concern given various towns' on the Cape waste water treatment and building code restrictions. DPH's response was that if the facility had a reasonable plan in place and was clean, there shouldn't be any problems.

The rest of the summer was spent researching facilities with little success. Critical factors were realtor's focus on summer rental business and summer prices (high) for real estate - both leased and purchased. Prices came down in October and a facility site was selected in November. Grant funds were expended in November.

Significant Conceptual Issues:

Throughout the length of the project the group struggled with two primary issues relating to risk:

1. Whether to purchase or lease a facility, and
2. How to divide expenses fairly when each member appeared to be operating at different levels of volume.

At various times during the project a majority vote would have supported both lease and purchase. However, since the group was not a legal entity and had no assets, personal guarantees were required. At various times, individuals in the group were prepared to purchase property (using FSA loan rates) and lease the space to the group. Summer prices and other obstacles mentioned above eroded the group's confidence regarding purchase. The decision was finally made to lease for the right reasons. It presents less risk for a new venture.

Division of expenses was more easily resolved. Base expenses will be shared evenly and usage expenses will be allocated proportionately.

4. Recommendations for Similar Efforts

If a checklist were capable of answering the critical questions for individuals considering a joint venture for owning and operating a shellfish handling facility (or for a shellfish production/marketing/sales operation) it would follow the outline and procedure below. Each member of the prospective organization would fill out this checklist prior to beginning a serious discussion.

Step 1. Individual Assessment

What are my goals?

Reduced costs

Better operating environment

Sell more to more customers

How much am I willing to spend?

What am I expecting in return?

How much will it cost me to get a wholesale dealer's permit?

Licensing fees

Facility improvements

Operating costs for 18 months

What is my exit strategy?

sell out in 18-24 months

Intermediate

Retirement - when

Do I intend to pay my share of the organization's costs through existing customers (current sales and price levels) or am I going to seek new customers? _____

Define tasks and target dates that are necessary to get the facility up and running.

| | |
|------------------|-------|
| Find facility | _____ |
| Permitting tasks | _____ |
| Other | _____ |
| Other | _____ |
| Other | _____ |

What tasks am I willing to undertake for the group.

| | |
|------------------|-------|
| Find facility | _____ |
| Permitting tasks | _____ |
| Other | _____ |
| Other | _____ |
| Other | _____ |

What do I prefer for a form of organization - limited liability corporation, S or C corp. or cooperative. _____

Step 2. Collective Assessments

The individual assessments should now be combined - listing differences where they exist - into a collective assessment to be used as a starting point for the group. Since no two companies are exactly alike, the amalgamation of the individual assessments is a unique effort for each group that performs this task.

Outlined below are the collective iterations of the questions addressed by each individual.

What are the priorities of the groups' goals?

| | |
|------------------------------|-------|
| Reduced costs | _____ |
| Better operating environment | _____ |
| Sell more to more customers | _____ |

What are the collective funds available? _____

How are differences reconciled? _____

How is sweat equity treated? _____

What are the collective and individual expectations for returns? _____

How much will the wholesale dealer's permit cost? _____

Licensing fees _____

Facility improvements _____

Supplies (tags, etc.) _____

Operating costs for 18 months _____

What are the long term goals for the organization? _____

sell out in 18-24 months _____

Intermediate _____

Retirement - when _____

What is the organization's funding strategy? _____

Define tasks and target dates that are necessary to get the facility up and running.

Find facility _____

Permitting tasks _____

Other _____

Other _____

Other _____

How will routine group tasks be distributed? _____

Admin. _____

Cleanup _____

Other _____

Other _____

Other _____

Preferred form of organization. _____

Step 3. Create Working Business Plan

Having completed the individual and collective assessments, the next task is to create a draft business plan that focuses on specific steps you will take to make this business (called The Enterprise here) work.

Bullet Point Business Plan Outline

Introduction

Not always necessary, but sometimes helps people to tell them what they are about to read.

Executive Summary

Brief description of the critical elements of The Enterprise that members need to consistently focus on or outsiders should be aware of to understand the "heart" of the business.

Company Description:

What you think others need to know about your business. You can't tell them everything so make sure you've told them what is important to understand: 1) what you do and, 2) why you are special. Two or three sentences of history about combining your two businesses, and the length of time that you've been in business would be helpful to a reader, and to reinforce in your own mind your heritage, brand name, and community identification.

Also include a Mission Statement. Every business should have a "30 second commercial" that communicates the essence of the business quickly and clearly.

Operations/Production

Some people call this the organization section. I think it is more helpful to describe how your business creates, or produces, the products that The Enterprise sells. Keep the format simple. Something like the format below might be sufficient.

| <u>Task/Activity</u> | <u>Person Responsible</u> | <u>Target Date</u> | <u>\$ In or Out</u> | <u>Outcome</u> |
|----------------------|---------------------------|--------------------|---------------------|----------------|
| 1. | | | | |
| 2. | | | | |

Sales & Marketing

Simply put, how you sell and who you sell to. If you have a sense, even if it's not documented but intuitive, of who your existing customers are and who you would like to have more of, this goes here. Use the same task/activity as above to focus on specific steps.

Financial Information

Create possible, or probable, budgets. Use your past individual sense of revenues and costs to create The Enterprise budgets and projections. The task/activity format can work here as well, but feel free to modify it to suit your needs.

Strategy for Growth and Development

This will be a couple of pages describing how you will use funds, what revenues you expect to generate from those funds and a summary description (couple of paragraphs) of your plans to grow.

Questions to Ask (And Try to Answer) When Writing the Business Plan

1. List the five major business costs that The Enterprise must cover to break even.

| | Item | Amount |
|----|-------|--------|
| 1. | _____ | _____ |
| 2. | _____ | _____ |
| 3. | _____ | _____ |
| 4. | _____ | _____ |
| 5. | _____ | _____ |

2. What are the five most important things that The Enterprise can do to grow? (Don't worry about how you express it - this is a draft.) What are the costs to do these five things? What will The Enterprise (estimates are fine at this stage) realize as revenue from these activities or product lines?

| | Activity/Product Line | Probable Cost | Probable Revenues |
|----|-----------------------|---------------|-------------------|
| 1. | _____ | _____ | _____ |
| 2. | _____ | _____ | _____ |
| 3. | _____ | _____ | _____ |
| 4. | _____ | _____ | _____ |
| 5. | _____ | _____ | _____ |